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U.S. Senate Report Reveals Illegal Activities at Mexican Branches of British Bank HSBC in 2000-2010

by Carlos Navarro

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The Mexican operations of British-based HSBC are part of a US Senate investigation on money laundering and other violations by some of the bank's North American subsidiaries. A report by the Senate Subcommittee on Investigations revealed that HSBC branches in Mexico helped the Sinaloa cartel, also known as the Pacific cartel, use the US financial system to manage its finances. The report also implicated prominent politicians in money-laundering operations, including a former governor of Tamaulipas and an ex-mayor of Cancún.

HSBC is one of the largest banking institutions in Mexico. The bank became a major participant in the Mexican financial-services sector in 2002 through the acquisition of Grupo Bital, which at that time was Mexico's fifth-largest financial institution ([SourceMex, Sept. 11, 2002](#)).

The 330-page report, released at a Senate hearing in Washington on July 17, provided details of a yearlong investigation, along with supporting documents that included bank records and internal emails. Key HSBC officials were summoned to testify at the hearing, including compliance chief David Bagley. HSBC officials used the hearing to issue a public apology and to announce Bagley's resignation.

"Between 2004 and 2010, our anti-money-laundering controls should have been stronger and more effective, and we failed to spot and deal with unacceptable behavior," said HSBC's new chief executive Stuart Gulliver.

The subcommittee's investigation focused on operations of US affiliate HSBC Bank USA, N.A. (HBUS), which functions as a sort of hub for HSBC's worldwide network. HBUS offered services like fund transfers, currency exchanges, and other transactions to 1,200 other banks, including more than 80 HSBC affiliates.

"HBUS offered correspondent banking services to HSBC Bank Mexico, and treated it as a low-risk client, despite its location in a country facing money laundering and drug trafficking challenges, high risk clients like casas de cambio, high risk products like US dollar accounts in the Cayman Islands, a secrecy jurisdiction, and weak AML [anti-money laundering] controls," said the Senate subcommittee report. "The Mexican affiliate transported US\$7 billion in physical US dollars to HBUS from 2007 to 2008, outstripping other Mexican banks, even one twice its size, raising red flags that the volume of dollars included proceeds from illegal drug sales in the United States."

Regulators warned bank but failed to act forcefully

Mexican and US regulators became aware of HSBC's operations and warned the bank repeatedly that certain laws were being violated between 2000 and 2009, but HSBC failed to act.

The Mexican government through the Subprocuraduría de Investigación Especializada en Delincuencia Organizada (SIEDO) had been tracking the movement of illicit funds between Mexico and the US between 2000 and 2010 and was sharing that information with US authorities. The

transfers occurred in two forms—the foreign-exchange companies known as casas de cambio and direct movement from account to account in banks that had branches in the US and Mexico, including HSBC.

Even though Mexican authorities were aware of the possible illegal transactions, it was several years before they took any action against HSBC.

In 2008, Guillermo Babatz Torres, president of Mexico's banking and securities regulating commission (Comisión Nacional Bancaria y de Valores, CNBV), sounded the alarm about an irregular pattern in HSBC's operations. The CNBV official was concerned about the large sums of money that HSBC was sending from its branches in Mexico to the US, an estimated US\$3 billion—twice the amount of Mexico's largest bank, Grupo Banamex.

It was only at that time that the government took steps to correct the problem by forcing HSBC to implement new safeguards. "They were given time to correct" their policies, Finance Secretary José Antonio Meade said in an interview on Radio Fórmula. "When that didn't happen in a timely manner, HSBC was subject to fines and penalties.

"What is being made public today is an investigation that had been carried out in Mexico more than four years ago, and the matter was completely corrected," Meade said on the day the Senate report was released.

Meade's predecessor, ex-finance secretary Ernesto Cordero, implemented further restrictions on dollar transactions in 2010. "We had observed for many years that the Mexican banking system was receiving a huge amount of money in dollars, more than what could be explained by the dynamics of the Mexican economy," Cordero said at that time.

But Babatz Torres said there was no evidence that the bank was directly involved in money laundering, and any penalties against HSBC in Mexico were simply levied for lack of administrative oversight.

Because of bank-secrecy laws, the government's actions against HSBC were not released in Mexico, so the public was unaware of the situation. But Mexico was also not fully informed of the US investigation, although officials were aware that US officials were looking at bank transactions between Mexico and the US. "We knew about the investigations that the Senate mentioned in the report," said Babatz. "These were the same investigations that the OCC [Office of the Comptroller for the Currency] and US Department of Justice had been conducting. They had requested the information that we had gathered."

In the US, criticism at the July 17 hearing focused on the ineffective oversight by the OCC between 2001 and 2010. The subcommittee said the OCC disregarded several warning signs and failed to stop a number of violations during that period despite ample evidence of money-laundering activities. In addition to helping money-laundering operations in Mexico, the lack of controls at HSBC helped clients circumvent US laws intended to stop transactions from countries facing international sanctions, including Iran, Cuba, and North Korea.

"The bank's federal bank regulator, the OCC, tolerated HSBC's weak AML system for years," said Sen. Carl Levin (D-MI), chair of the investigations subcommittee. "If an international bank won't police its own affiliates to stop illicit money, the regulatory agencies should consider whether to revoke the charter of the US bank being used to aid and abet that illicit money."

Lax enforcement benefits Sinaloa cartel, other traffickers

In Mexico, the lax controls allowed drug-trafficking organizations—primarily the Sinaloa cartel led by Joaquín "El Chapo" Guzmán—to launder billions of dollars through financial institutions that had a relationship with HSBC, particularly the foreign-exchange operations known as casas de cambio. The Senate report focused on HSBC's relationship with Casa de Cambio Puebla, one of the institutions in Mexico that sent large sums of money to HSBC branches in the US, which was used extensively by the Sinaloa cartel.

Casa de Cambio Puebla also provided resources for the Sinaloa cartel to acquire two aircraft. In 2006, authorities seized one of those airplanes in Ciudad del Carmen, Campeche, with 5 tons of drugs. The second airplane crashed in 2007 near the community of Tixkokob in Yucatán state with a cargo of 4 tons of cocaine.

Mexico has since revoked the operating permit for Casa de Cambio Puebla.

Another prominent figure in Mexico named in the Senate report is pharmacist Zhenli Ye Gon, known as the "king of amphetamines." Ye Gon, a Chinese pharmaceuticals manufacturer who became a naturalized Mexican citizen in 1993, managed the finances for his methamphetamine-trafficking operation through accounts opened by his company Unimed Pharm Chem México S.A. de C.V (Unichem) in the Mexican HSBC affiliate.

Authorities are investigating whether Unichem's HSBC accounts were used to launder money for the Sinaloa cartel. The report said the Mexican government did not take immediate action against Ye Gon despite suspicious transaction activity that was flagged from US authorities. "The accounts were not designated as high risks despite the unusual transactions detected several times between 2003 and 2007," said the Senate report.

But Ye Gon did not keep all his profits in financial institutions. In 2007, Mexican authorities seized US\$207 million hidden in Ye Gon's home in Mexico City ([SourceMex, July 25, 2007](#)).

Ye Gon, who was arrested in the US on drug-trafficking charges, is fighting extradition to Mexico. In 2009, a US court dropped US charges against the pharmacist, paving the way for his return to Mexico ([SourceMex, July 1, 2009](#)), but his lawyers have thus far managed to delay the extradition.

Politicians also implicated

The US Senate report also included the names of several politicians already suspected of having connections to the drug trade, including ex-Tamaulipas Gov. Tomás Yarrington and former Cancún mayor Gregorio Sánchez.

Yarrington is under investigation by US and Mexican authorities for alleged business dealings with drug-trafficking organizations ([SourceMex, Feb. 29, 2012](#), and [May 30, 2012](#)). In the US, federal prosecutors filed two civil forfeiture cases against Yarrington or his associates on properties that the ex-governor bought in Texas, allegedly with proceeds from organized crime. The properties included a condominium on South Padre Island and a 46-acre property in San Antonio, Texas.

Yarrington, a member of the Partido Revolucionario Institucional (PRI), is said to have opened accounts under the pseudonym Fernando Cano at HSBC and four other Mexican banks. Those accounts were allegedly used to pay for the properties in Texas.

Ex-Cancún mayor Sánchez is alleged to have used his position to protect major drug-trafficking organizations like the Zetas and the Beltrán Leyva cartel. Both groups are known to handle large volumes of cocaine and other drugs through the Yucatán Peninsula. Authorities also charged Sánchez with money laundering and conducting transactions with illegal proceeds. At the time of his arrest in May 2010 ([SourceMex, June 2, 2010](#)), Sánchez had just taken leave from his post as mayor to participate in the Quintana Roo gubernatorial election, representing a center-left coalition led by the Partido de la Revolución Democrática (PRD).

Sánchez's tax returns for 2006 to 2008 raised suspicions, as he reported 2.4 million pesos (US \$176,000) in income, but he managed about 27 million pesos (US\$2 million) through various bank accounts at HSBC and other institutions.

Names of relatives of former Hidalgo Gov. Miguel Osorio Chong also came up in connection with the case. While the ex-governor is not implicated directly, reports linked his two brothers, Luis Osorio Chong and Eduardo Osorio Chong, to the HSBC scandal. An article in the daily newspaper *Reporte Índigo* says the two brothers transferred about 100 million pesos (US\$7.3 million) from HSBC in Mexico to the bank's branches in Panama.

But Miguel Osorio said there is no evidence that his brothers transferred that much money to Panama, suggesting that there might be political motivation to the coverage in *Reporte Índigo*. "I am ready and open to any investigation, even allowing for a suspension of the banking-secrecy law," said Osorio, one of the top campaign officials for President-elect Enrique Peña Nieto of the PRI. "I invite them to review our accounts, not only in HSBC but in all the institutions where my family has deposits." [Peso-dollar conversions in this article are based on the Interbank rate in effect on July 25, 2012, reported at 13.58 pesos per US\$1.00.]

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